GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5654
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Mutual Funds Investment
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has framed any guidelines/regulations which provide protection/security of investments made in mutual funds;
(b) if so, the details thereof;
(c) whether the aforesaid guidelines/ regulations comprise of provisions to curb frauds and manipulations by the companies managing the mutual fund investments and if so, the details thereof;
(d) whether the Government has taken into cognizance that the work of collecting funds under mutual fund has been entrusted to the Public Sector Banks and if so, the details thereof and the reasons therefor; and
(e) the corrective steps taken by the Government in this regard?

Answer

The Minister of State for Finance (Shri Arjun Ram Meghwal)

(a), (b) and (c): The Securities and Exchange Board of India (SEBI) is mandated to protect the interests of investors in securities, and to promote the development of and to regulate the securities market. In pursuance of the same, SEBI has framed Regulations for the securities market, inter alia, to ensure that the interest of the investors is protected by way of disclosures, transparency and fair treatment to investors.
In exercise of the powers conferred by Section 30, read with clause (c) of sub-section (2) of section 11 of the SEBI Act, 1992, SEBI has framed the SEBI (Mutual Funds) Regulations, 1996 and Circulars issued thereunder. In terms of these regulations, inter-alia, the following requirements have been laid down for mutual funds (MFs):
i. Segregation of accounts − Trustees of Mutual Funds and asset management companies (AMCs) are required to ensure scheme-wise segregation of bank accounts and securities accounts. An AMC needs to separately maintain proper and separate books of account, records and documents for each scheme so as to explain its transactions and to disclose, at any point of time, the financial position of each scheme and in particular, give a true and fair view of the state of affairs of the fund.
ii. Appointment of Custodian − The Mutual Fund is mandated to appoint a Custodian to keep custody of securities and other assets held by the Fund.
iii. Disclosures in Offer Document − The offer document is required to contain disclosures with respect to asset allocation, investment strategies, associated risks etc. to enable investors to make informed investment decisions.
iv. Due Diligence − The Board of the AMC is required to have in place a mechanism to verify that due diligence is being exercised while making investment decisions, particularly in cases of investment in unlisted and privately placed securities, unrated debt securities, Non-Performing Assets (NPAs), transactions in which associates are involved and instances in which the performance of the scheme/ schemes is poor. Further, AMCs are required to report compliance with these requirements in their periodical reports to the Trustees and the Trustees shall report the same to SEBI in the Half Yearly Trustee Reports. Trustees also check compliance with these guidelines through independent auditors or internal and/or statutory auditors or other systems developed by them.
v. Portfolio Disclosures − SEBI has mandated Mutual Funds/AMCs to disclose the portfolio of all schemes on a monthly basis on their website as well as publish the same in newspapers on a half yearly basis.
In addition, in order to curb irregularities in Mutual Funds, periodic inspections of Mutual Funds are undertaken by SEBI-appointed auditors. Besides, theme-based inspections are also undertaken to examine specific issues in the operations of Mutual Funds. Pursuant to these inspections, in case of any non-compliance with the Regulations, SEBI takes action as deemed fit and appropriate.

(d) and (e): The work of collecting funds under mutual funds has not been entrusted to public sector banks. In terms of the SEBI (Mutual Funds) Regulations, 1996, any entity, including public sector banks (PSBs), private companies, etc. which satisfies the eligibility criteria can obtain registration from SEBI and set up a Mutual Fund. Accordingly, public sector banks fulfilling the criteria so prescribed by SEBI, may apply to SEBI for registration and thereby undertake such activities. Currently, the following seven public sector banks are sponsors of Mutual Funds:
Sl. No Name of the Mutual Funds Name of PSB who is sponsor to MF
1 Baroda Pioneer Mutual Fund Bank of Baroda
2 BOI Axa Mutual Fund Bank of India
3 Canara Robeco Mutual Fund Canara Bank
4 IDBI Mutual Fund IDBI Bank
5 Principal PNB Mutual Fund Punjab National Bank
6 SBI Mutual Fund State Bank of India
7 Union Mutual Fund Union Bank
Source: SEBI
Mutual Funds are mandated to provide regular plans (investments routed through Mutual Fund distributors) and direct plans (investments directly with Mutual Funds) for all their schemes. For selling mutual fund schemes and garnering funds, Mutual Funds can empanel distributors. Currently, Mutual Fund distributors are required to obtain an Association of Mutual Funds of India (AMFI)

Registration Number (ARN) before selling any Mutual Fund product. Currently, the following twenty six public sector banks hold ARN and are empanelled as distributors:

Sl. No.	Bank Name
1	IDBI Bank Ltd
2	State Bank Of Hyderabad
3	State Bank of India
4	Vijaya Bank
5	State Bank of Travancore
6	Indian Bank
7	State Bank of Bikaner & Jaipur
8	Allahabad Bank
9	State Bank of Patiala
10	Corporation Bank
11	UCO Bank
12	Andhra Bank
13	Indian Overseas Bank
14	Punjab & Sind Bank
15	Dena Bank
16	United Bank Of India
17	Oriental Bank Of Commerce
18	Bank Of Baroda
19	Syndicate Bank
20	Central Bank Of India
21	Bank of Maharashtra
22	Union Bank of India
23	Bank of India
24	Punjab National Bank
25	State Bank of Mysore
26	Canara Bank

Source: SEBI

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